

**REGIONAL TRANSIT AUTHORITY (REGION III)  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2012**

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REGIONAL TRANSIT AUTHORITY (REGION III)  
OFFICIALS  
JUNE 30, 2012

EXECUTIVE DIRECTOR ..... Hugh Lively

BOARD OF DIRECTORS

Officers:

Chairperson ..... Emily Waund  
Vice Chairperson ..... Burlin Matthews  
Secretary-Treasurer ..... Ed Noonan

Board Members:

Buena Vista County ..... Dale Arends  
  
Clay County ..... Burlin Matthews  
  
Dickinson County ..... Bill Leupold  
  
Emmet County ..... Tim Schumacher  
  
Lyon County ..... Merle Koedam  
  
O'Brien County ..... Emily Waund  
  
Osceola County ..... Mike Schulte  
  
Palo Alto County ..... Ed Noonan  
  
Sioux County ..... Al Bloemendaal

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Regional Transit Authority (Region III)  
Spencer, IA 51301

We have audited the accompanying statement of financial position of Regional Transit Authority (Region III), Spencer, Iowa, as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Regional Transit Authority's (Region III) management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Transit Authority (Region III) at June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of Regional Transit Authority's (Region III) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Regional Transit Authority's (Region III) basic financial statements. The supplemental information included on Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wenther, Starnes Co., LLP

January 8, 2013

REGIONAL TRANSIT AUTHORITY (REGION III)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2012

## ASSETS

## Current Assets:

Cash .....	\$ 642,057
Accounts receivable - net of allowance for doubtful accounts of \$1,500 .....	184,936
Governmental receivables .....	172,023
Inventory .....	5,434
Prepaid expense .....	21,666
Total Current Assets	<u>1,026,116</u>

Property and equipment .....	6,376,287
Less accumulated depreciation .....	<u>(4,203,936)</u>
Property and Equipment - Net	<u>2,172,351</u>

TOTAL ASSETS \$3,198,467

## LIABILITIES AND NET ASSETS

## Current Liabilities:

Accounts payable .....	\$ 85,406
Accrued expenses .....	76,830
Accrued vacation .....	44,133
Total Current Liabilities	<u>206,369</u>

## Net Assets:

Unrestricted:	
Undesignated .....	154,674
Board designated .....	665,073
Total Unrestricted Net Assets	819,747
Temporarily restricted .....	<u>2,172,351</u>
Total Net Assets	<u>2,992,098</u>

TOTAL LIABILITIES AND NET ASSETS \$3,198,467



REGIONAL TRANSIT AUTHORITY (REGION III)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>PUBLIC SUPPORT AND REVENUES:</b>			
Operating grants .....	\$ 951,043		\$ 951,043
Capital grants .....		\$ 84,932	84,932
Local operating .....	124,493		124,493
Local capital .....	51,656		51,656
Contract services .....	687,077		687,077
Non-contract special services .....	35,616		35,616
Fares .....	159,971		159,971
Fuel tax refunds .....	17,884		17,884
In-kind revenue .....	253,668		253,668
Investment income .....	2,107		2,107
Gain on disposal of equipment .....		18,624	18,624
Miscellaneous income .....	<u>409</u>	<u></u>	<u>409</u>
<b>TOTAL PUBLIC SUPPORT     AND REVENUES</b>	<u>2,283,924</u>	<u>103,556</u>	<u>2,387,480</u>
<b>EXPENSES:</b>			
Direct .....	1,182,727		1,182,727
Indirect .....	884,292		884,292
In-kind expense .....	253,668		253,668
Provision for depreciation .....	<u>24,306</u>	<u>452,089</u>	<u>476,395</u>
<b>TOTAL EXPENSES</b>	<u>2,344,993</u>	<u>452,089</u>	<u>2,797,082</u>
<b>DECREASE IN NET ASSETS</b>	(61,069)	(348,533)	(409,602)
<b>NET ASSETS AT BEGINNING OF YEAR</b> .....	<u>880,816</u>	<u>2,520,884</u>	<u>3,401,700</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 819,747</u>	<u>\$2,172,351</u>	<u>\$2,992,098</u>

REGIONAL TRANSIT AUTHORITY (REGION III)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets .....	\$ (409,602)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:	
Depreciation .....	476,395
Gain on disposal of equipment .....	(18,624)
Changes in assets and liabilities:	
Increase in accounts receivable .....	(43,328)
Decrease in government receivables .....	51,641
Decrease in inventory .....	1,919
Increase in prepaid expense .....	(17,221)
Increase in accounts payable .....	19,491
Increase in accrued expenses .....	8,874
Increase in accrued vacation .....	<u>1,001</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>70,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property and equipment .....	(127,862)
Proceeds from sale of equipment .....	<u>18,624</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(109,238)</u>
NET DECREASE IN CASH	(38,692)
CASH BEGINNING OF YEAR .....	<u>680,749</u>
CASH END OF YEAR	<u>\$ 642,057</u>



REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Regional Transit Authority (Region III), doing business as RIDES, is a not-for-profit organization based in Spencer, Iowa, with offices in and services provided to a nine county area of Northwest Iowa. It is a regional transit authority which provides transportation services to the public in their area through assistance from federal, state, and local funds. The Regional Transit Authority is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized exclusively for religious, charitable, or educational purposes.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Grant or contract revenue is recognized when earned. The grants and contracts are written on an expenditure reimbursement basis and, accordingly, grant or contract revenue is earned when allowable program expenditures are incurred.

**Basis of Presentation**

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Authority and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Subject to donor-imposed stipulations that may be fulfilled by actions of the Authority to meet the stipulations or become unrestricted at the date specified by the donor.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Revenues that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Expenses, other than depreciation on temporarily restricted net assets, are reported as decreases in unrestricted net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

**Subsequent Events**

The Authority has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**Cash and Cash Equivalents**

Cash includes amounts in demand deposit accounts and money market funds.

For purposes of the statement of cash flows, the Authority considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Accounts and Governmental Receivables**

Reimbursement procedures used for grants and contracts may result in timing differences between program reimbursements and expenditures. Receivables from grantor agencies represent an excess of expenditures over reimbursements at year end and are considered entirely collectible.

The Authority grants credit to local organizations for services in the area. Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided based on management's evaluation of potential uncollectible accounts receivable at year end. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

**Inventory**

Inventory is valued at the lower of cost or market. Cost is determined on the first-in, first-out basis.

**Property and Equipment**

Property and equipment is stated at historical cost or estimated cost if actual historical cost is not available. Donated property and equipment is valued at estimated fair value on the date of donation. Depreciation has been provided using the straight-line method over the estimated useful lives of the respective assets, generally 5 to 40 years. Expenditures for maintenance, repairs, and minor replacements are charged to the current year, while the cost of major replacements and betterments is capitalized.

**Compensated Absences**

Employees of the Authority accumulate a limited amount of earned but unused vacation payable to employees. This liability has been computed based on rates of pay in effect at June 30, 2012.

**Advertising and Promotion**

Advertising and promotion expenditures are charged to operations as incurred.

**Board Designated Net Assets**

The governing board designated that \$665,073 be reserved at June 30, 2012 for equipment replacement. The funds are reserved at the rate of \$.07 per mile driven, except when subcontracting the rate is only \$.02 per mile driven. The Authority also reserves their share of funds received from the sale of equipment and from local contributions designated by the governing board for capital.

The board has the authority to reverse its decision to designate the cash for equipment replacement; therefore, the designated cash is included as a current asset.

REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Temporarily Restricted Net Assets**

Substantially all property and equipment is acquired with grant proceeds and is restricted for use in public transit. If the assets are sold before the end of their useful life, the percentage of the proceeds equal to the proportion of original grant funding must be returned to the grantor if the purchaser is not another transit agency. The net property and equipment balance of \$2,172,351 is recorded as temporarily restricted net assets.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increase and decrease in net assets from operations during the period. Actual results could differ from those estimates.

**2. CASH AND POOLED INVESTMENTS**

The Authority's deposits in banks at June 30, 2012 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**3. PROPERTY AND EQUIPMENT**

Property and equipment activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land .....	\$ 39,164			\$ 39,164
Building .....	1,380,098			1,380,098
Transportation equipment .....	4,088,704	\$ 124,227	\$358,635	3,854,296
Shop equipment .....	55,413		1,995	53,418
Furniture and fixtures .....	1,045,676	3,635		1,049,311
Total	<u>6,609,055</u>	<u>127,862</u>	<u>360,630</u>	<u>6,376,287</u>
Less accumulated depreciation for:				
Building .....	366,636	39,033		405,669
Transportation equipment .....	2,659,171	422,427	358,635	2,722,963
Shop equipment .....	51,627	1,327	1,995	50,959
Furniture and fixtures .....	1,010,737	13,608		1,024,345
Total accumulated depreciation	<u>4,088,171</u>	<u>476,395</u>	<u>360,630</u>	<u>4,203,936</u>
Property and Equipment - Net	<u>\$2,520,884</u>	<u>\$(348,533)</u>	<u>\$</u>	<u>\$2,172,351</u>



REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**4. GOVERNMENT ASSISTANCE**

During the year ended June 30, 2012, the Authority received federal, state, and local government support for the purpose of providing transportation services for the general public. Grants included in income were as follows:

Federal:		State:	
Section 5311 operating	\$565,816	Operating	<u>\$369,003</u>
Training reimbursement	9,724		
Section 5311 capital	84,932	Local:	
Section 5317 operating	<u>6,500</u>	Local operating	\$124,493
		Local capital	<u>51,656</u>
	<u>\$666,972</u>		<u>\$176,149</u>

**5. IN-KIND REVENUE AND EXPENSE**

The Authority contracts with cities to provide intra-city transportation services. The in-kind revenue and expense amount of \$253,668 does not represent funds received or expended by the Authority. The amounts represent program revenues and expenses incurred by the contracting cities in excess of the contract amounts and have been included in this report to show the total income and cost of the program.

**6. PENSION AND RETIREMENT BENEFITS**

**Iowa Public Employees Retirement System**

The Authority contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary, and the Authority is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$79,345, \$63,022, and \$60,954, respectively, equal to the required contributions for each year.

REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**7. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The Authority operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 12 active and no retired members in the plan. Participants must be age 55 or older and meet certain other requirements at retirement. Benefits terminate upon attaining Medicare eligibility. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy. It is anticipated retiree premiums will be fully offset by monthly contributions.

**8. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Authority assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

## **SUPPLEMENTAL INFORMATION**



REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2012

Advertising and promotion .....	\$ 16,530
Contract services .....	39,555
Payroll taxes and employee benefits .....	351,485
Repairs and maintenance .....	73,523
Fuel and oil .....	302,639
Insurance .....	136,988
Rent .....	12,744
Utilities .....	33,218
Miscellaneous .....	2,772
Salaries and wages .....	994,899
Office supplies and printing .....	19,825
Professional fees .....	13,125
Travel and training .....	19,172
Service agreements .....	33,034
Physicals .....	4,668
Uniforms .....	5,706
Subscriptions, dues, and licenses .....	7,136
In-kind:	
Labor .....	120,159
Fuel and oil .....	69,285
Other .....	64,224
Depreciation .....	<u>476,395</u>
 TOTAL EXPENSES	 <u>\$2,797,082</u>

REGIONAL TRANSIT AUTHORITY (REGION III)  
 SCHEDULE OF DIRECT EXPENSES  
 FOR THE YEAR ENDED JUNE 30, 2012

Advertising and promotion .....	\$ 3,173
Contract services .....	39,555
Payroll taxes and employee benefits .....	188,741
Repairs and maintenance .....	35,981
Fuel and oil .....	292,552
Insurance .....	49,395
Rent .....	11,600
Utilities .....	1,468
Miscellaneous .....	639
Salaries and wages .....	546,952
Office supplies and printing .....	280
Travel and training .....	7,723
Physicals .....	<u>4,668</u>
 TOTAL DIRECT EXPENSES	 <u>\$1,182,727</u>

REGIONAL TRANSIT AUTHORITY (REGION III)  
 SCHEDULE OF INDIRECT EXPENSES  
 FOR THE YEAR ENDED JUNE 30, 2012

Advertising and promotion .....	\$ 13,357
Payroll taxes and employee benefits .....	162,744
Repairs and maintenance .....	37,542
Fuel and oil .....	10,087
Insurance .....	87,593
Rent .....	1,144
Utilities .....	31,750
Miscellaneous .....	2,133
Salaries and wages .....	447,947
Office supplies and printing .....	19,545
Professional fees .....	13,125
Travel and training .....	11,449
Service agreements .....	33,034
Uniforms .....	5,706
Subscriptions, dues, and licenses .....	<u>7,136</u>
 TOTAL INDIRECT EXPENSES	 <u>\$ 884,292</u>

REGIONAL TRANSIT AUTHORITY (REGION III)  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Formula Grants for other than			
Urbanized Areas:			
Section 5311 .....	20.509	18-0030-030-11	\$565,816
Training reimbursement .....	20.509	Various	9,724
ARRA - Section 5311 .....	20.509	86-0001-030-09	<u>84,932</u>
Total CFDA #20.509			<u>660,472</u>
New Freedom Program:			
Section 5317 .....	20.521	57-X008-030-12	<u>6,500</u>
TOTAL			<u>\$666,972</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Regional Transit Authority (Region III) and is presented in conformity with the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the  
Regional Transit Authority (Region III)  
Spencer, IA 51301

We have audited the financial statements of the Regional Transit Authority (Region III) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 8, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of Regional Transit Authority (Region III) is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered the Regional Transit Authority's (Region III) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Regional Transit Authority's (Region III) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Regional Transit Authority's (Region III) internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Regional Transit Authority's (Region III) financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Regional Transit Authority's (Region III) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Regional Transit Authority's (Region III) responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Authority's responses, we did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of the Regional Transit Authority (Region III) and other parties to whom the Authority may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Regional Transit Authority (Region III) during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Wintner, Stave & Co., LLP*

January 8, 2013



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

To the Board of Directors of the  
Regional Transit Authority (Region III)  
Spencer, IA 51301

**Compliance**

We have audited Regional Transit Authority's (Region III) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The Regional Transit Authority's (Region III) major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the Regional Transit Authority's (Region III) management. Our responsibility is to express an opinion on the Regional Transit Authority's (Region III) compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Regional Transit Authority's (Region III) compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Regional Transit Authority's (Region III) compliance with those requirements.

In our opinion, the Regional Transit Authority (Region III) complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of the Regional Transit Authority (Region III) is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Regional Transit Authority's (Region III) internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Regional Transit Authority's (Region III) internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of the Regional Transit Authority (Region III) and other parties to whom the Authority may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Winter, Stare & Co., LLP*

January 8, 2013

REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012

**Part I: Summary of the Independent Auditors' Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was Formula Grants for Other than Urbanized Areas, CFDA Number 20.509.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Regional Transit Authority (Region III) did not qualify as a low-risk auditee.

REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part II: Findings Related to the Financial Statements**

**Internal Control Deficiency:**

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Responsibility for the custody, record-keeping, and reconciling functions of revenues and expenses should be assigned to different employees.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Regional Transit Authority (Region III) should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives to segregate duties where possible and will establish review procedures where complete segregation is not feasible.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were reported.

REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012

**Part III: Findings and Questioned Costs for Federal Awards**

**Instances of Noncompliance:**

No matters were reported.

**Internal Control Deficiency:**

CFDA Number 20.509: Formula Grants for Other than Urbanized Areas

U.S. Department of Transportation, pass through the Iowa Department of Transportation

III-A-12 Segregation of Duties Over Federal Revenues - The Authority did not properly segregate custody, record-keeping, and reconciling functions for revenues and expenses, including those related to its federal program. See item II-A-12.



Regional Transit Authority (Area III)  
Corrective Action Plan for Federal Audit Findings  
For the year ended June 30, 2012

Comment Number	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
III-A-12	Segregation of duties over Federal Revenues	Board of Directors and management will continue to review organizational operating procedures to obtain maximum internal control possible under the existing circumstances.	Hugh Lively Executive Director 712-262-7920	Review of procedures is on-going



Regional Transit Authority (Area III)  
Summary Schedule of Prior Federal Audit Findings  
For the year ended June 30, 2012

Comment Reference	Comment Title	Status	If Not Corrected, Provide Planned Corrective Action or Other Explanation
III-A-09 III-A-10 III-A-11	Segregation of Duties	Uncorrected	Regional Transit Authority (Area III) is reviewing its control procedures.